

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name WEST BRANCH DISTRICT LIBRARY	County OGE MAW
Audit Date 06/30/2004	Opinion Date 09/03/2004	Date Accountant Report Submitted to State: 12/30/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

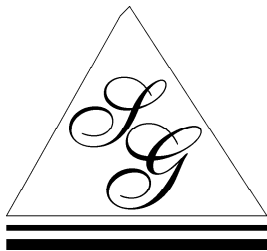
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 317 W HOUGHTON AVE, PO BOX 159	City WEST BRANCH	State MI	ZIP 48661
Accountant Signature  <div style="float: right; font-size: small;"> Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.12.12 16:05:28 -0500 Reason: I am approving this document </div>			



Stephenson Gracik & Co., P.C.

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WEST BRANCH DISTRICT LIBRARY
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2004

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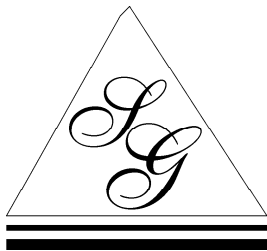
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September 3, 2004

Independent Auditors' Report

Library Board
West Branch District Library
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the West Branch District Library, Ogemaw County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the West Branch District Library's basic financial statements, as listed in the index. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the West Branch District Library, Ogemaw County, Michigan as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004, on our consideration of the West Branch District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the West Branch District Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis- for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Branch District Library's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the West Branch District Library's (the Library) financial performance provides an overview of the Library's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the Library's financial performance as a whole. The discussion focuses on the Library's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

Financial Highlights

- The Library's assets exceeded its liabilities by \$363,506 (*net assets*).
- The Library's total net assets increased by \$52,483.
- The Library's governmental funds reported combined ending fund balance of \$408,697 this year, an increase of \$144,192. Of this amount, \$150,536 is available for spending (*unreserved fund balance*) on behalf of its constituents and \$258,161 is reserved for building improvements.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Library as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Library's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Library as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The Library does not currently hold any fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Library that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services. The Library does not currently have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library with certain limited exceptions. The comparisons of direct expenses with program revenues identify the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

With this report, capital assets are listed for the first time under GASB 34 for the West Branch District Library. These assets are comprised of building improvements, furniture, computer systems, collections (library books) and land owned by the Library. These assets total over \$120,000. The Library Director performed an inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

Fund Financial Statements

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental*, *Proprietary* and *Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Library's major governmental funds:

- Library Operating Fund – This fund is the general operating fund of the Library. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Library Contingency Fund – This fund is used to accumulate funds set aside by the Library Board to fund future contingency items.
- Library Capital Improvement Fund – This fund is used to account for bond proceeds used for the construction of the Library's building addition and improvements.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Library does not currently have any Proprietary Funds.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets and changes in net assets. The Library does not currently hold any Fiduciary Funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Library *government-wide* and *fund* financial statements. Exhibit G provides an expansive and thorough view of various aspects of the audited financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government-Wide Financial Analysis

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

Summary of Net Assets:

The following summarize s the net assets of the West Branch District Library at June 30, 2004:

Net Assets Summary

	<u>Governmental Activities</u>
Current Assets	\$ 465,046
Capital Assets – net	<u>120,538</u>
Total Assets	<u>585,584</u>
Current Liabilities	51,778
Long-Term Liabilities	<u>170,300</u>
Total Liabilities	<u>222,078</u>
Net Assets	
Invested in Capital Assets, Net of Debt	(49,462)
Restricted	258,161
Unrestricted	<u>154,807</u>
Total Net Assets	<u>\$ 363,506</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for the year ended June 30, 2004. Since this is the first year the Library has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to the prior year are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Generally speaking, the Library's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The West Branch District Library, through its governing body, i.e., the Library Board, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Library Board has prudently set aside funds to offset potential future liabilities. It is the Library's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>
Program Revenues:	
Charges for Services	\$ 14,418
Operating Grants and Contributions	12,176
Capital Grants and Contributions	<u>26,554</u>
Total Program Revenues	53,148
Program Expenses:	
Recreation and Cultural	<u>208,692</u>
Net Program Expenses	<u>(155,544)</u>
General Revenues:	
Property Taxes	66,997
State Revenue	9,934
Penal Fines	117,657
Investment earnings and miscellaneous	<u>13,439</u>
Total General Revenues	<u>208,027</u>
Change in Net Assets	<u><u>\$ 52,483</u></u>

Governmental Activities

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* and illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$53,148 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are primarily contractual fees paid by Churchill and Foster Townships under Library service agreements. While revenue collected is substantial, operating expenses totaled \$208,692 for these same activities for Library operations.

Financial Analysis of Library Funds

As noted earlier in this report, the Library uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Library's major governmental funds: 1) Library Operating Fund; 2) Library Contingency Fund and 3) Library Capital Improvement Fund.

This year's Library audit, following GASB 34 format, shows three governmental funds. These funds are maintained as separate units in the General Ledger.

Budgetary Highlights

The fiscal year ending June 30, 2004 was an exciting and financially solvent year for the West Branch District Library. The Library utilized General Obligation Bond Funding to begin construction on an addition to the existing Library building.

The Library began the year with a \$70,920 general fund balance. At year's end, that balance had declined to \$52,147, a net decrease of \$18,773. The Library Operating Fund actual revenue of \$228,158 versus budgeted revenue of \$206,400 netted a favorable variance of \$21,758. Actual expenditures of the Library Operating Fund were \$206,931 versus budgeted expenditures of \$208,500 showing a net favorable variance of \$1,569.

Capital Asset and Debt Administration

Capital Assets

Of primary interest with this year's Library financial statement is the inclusion of "capital assets." Capital assets are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Library's improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

An expanded and detailed presentation may be seen in Note 7 of the audit, notes to financial statements.

Long-Term Debt

The Long-Term debt of the West Branch District Library, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the Library.

At year's end, long-term debt (due in more than one year) amounted to \$155,000. Such debt includes *Bonds Payable*, as well as *Compensated Absences*. That is, accumulated sick leave benefits of its employees. At June 30, 2004, the Library held cash of \$301,581 resulting from the bond proceeds and donor contributions restricted for building improvements.

Economic Factors

The West Branch District Library has realized significant growth in the last ten years. Due to wise investing and the prudent financial decisions of the Library Board, the Library was able to begin a building expansion project in the summer of 2004. A facility bond was obtained for \$170,000, and community donations were utilized for the building expansion costs. The bonds are scheduled for repayment in annual installments through 2014. The Library anticipates the entire Library contingency fund fund balance will also be used to cover additional construction costs and overages.

Lower investment earnings and tentative state and federal economies will provide future challenges. The main source of funding for the Library is penal fine revenue which fluctuates from year to year. The Library millage will continue to provide approximately \$60,000 a year through June 30, 2009. The Library also receives a stable \$8,500 per year in State Aid. All of the remaining revenue is miscellaneous funds and donations which also fluctuate annually.

Library budgetary operations are anticipated to be healthy but guarded as a result of additional building costs which are unknown at June 30, 2004 as the building is still under construction.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Library Director
West Branch District Library
119 N. Fourth Street
West Branch, MI 48661
989-345-2235

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 3)	\$ 457,010
Due from other units	8,036
Capital assets, net (Note 7)	<u>120,538</u>
Total Assets	<u>585,584</u>
<u>Liabilities</u>	
Accounts payable	51,778
Long-term liabilities:	
Due within one year (Note 8)	15,300
Due in more than one year (Note 8)	<u>155,000</u>
Total Liabilities	<u>222,078</u>
<u>Net Assets</u>	
Investment in capital assets, net of related debt	(49,462)
Restricted for:	
Capital projects	258,161
Unrestricted	<u>154,807</u>
Total Net Assets	<u>\$ 363,506</u>

The accompanying notes to financial statements are an integral part of this statement.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
<u>Primary Government:</u>					
Governmental activities:					
Recreation and cultural	\$ 208,692	\$ 14,418	\$ 12,176	\$ 26,554	\$ (155,544)
<u>General Revenues:</u>					
Property taxes levied for:					
Library operating					66,997
State revenue					9,934
Penal fines					117,657
Investment earnings					4,317
Other					9,122
Total general revenues					208,027
Change in net assets					52,483
Net assets - beginning of year					311,023
Net assets - end of year					\$ 363,506

The accompanying notes to financial statements are an integral part of this statement.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2004

	Library Operating Fund	Library Contingency Fund	Library Capital Improvement Fund	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 57,040	\$ 98,389	\$ 301,581	\$ 457,010
Receivables:				
Due from other units	8,036	0	0	8,036
Due from other funds	<u>0</u>	<u>0</u>	<u>5,020</u>	<u>5,020</u>
Total Assets	<u>\$ 65,076</u>	<u>\$ 98,389</u>	<u>\$ 306,601</u>	<u>\$ 470,066</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 3,338	\$ 0	\$ 48,440	\$ 51,778
Due to other funds	5,020	0	0	5,020
Deferred revenue	<u>4,571</u>	<u>0</u>	<u>0</u>	<u>4,571</u>
Total liabilities	<u>12,929</u>	<u>0</u>	<u>48,440</u>	<u>61,369</u>
<u>Fund Equity</u>				
Fund balances:				
Reserved:				
For capital improvement	0	0	258,161	258,161
Unreserved - undesignated	<u>52,147</u>	<u>98,389</u>	<u>0</u>	<u>150,536</u>
Total fund equity	<u>52,147</u>	<u>98,389</u>	<u>258,161</u>	<u>408,697</u>
Total Liabilities and Fund Equity	<u>\$ 65,076</u>	<u>\$ 98,389</u>	<u>\$ 306,601</u>	<u>\$ 470,066</u>

The accompanying notes to financial statements are in integral part of this statement.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2004

Total governmental fund balances:	\$	408,697
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$	744,573
Capital asset accumulated depreciation	<u>(624,035)</u>	
		120,538
Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:		
Property taxes receivable		4,571
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds payable	(170,000)	
Compensated absences payable	<u>(300)</u>	
Net difference		<u>(170,300)</u>
Total net assets - governmental activities	\$	<u>363,506</u>

The accompanying notes to financial statements are in integral part of this statement.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Library Operating Fund	Library Contingency Fund	Library Capital Improvement Fund	Total Governmental Funds
<u>Revenue</u>				
Taxes	\$ 62,426	\$ 0	\$ 0	\$ 62,426
State grants and revenue	9,934	0	0	9,934
Penal fines	117,657	0	0	117,657
Charges for services	14,418	0	0	14,418
Interest and rentals	1,163	1,385	1,769	4,317
Other revenue	22,560	0	26,554	49,114
Total revenue	<u>228,158</u>	<u>1,385</u>	<u>28,323</u>	<u>257,866</u>
<u>Expenditures</u>				
Current:				
Recreation and cultural	184,722	0	2,170	186,892
Capital outlay	22,209	0	74,573	96,782
Total expenditures	<u>206,931</u>	<u>0</u>	<u>76,743</u>	<u>283,674</u>
Excess of revenue over (under) expenditures	<u>21,227</u>	<u>1,385</u>	<u>(48,420)</u>	<u>(25,808)</u>
Other Financing Sources (Uses):				
Operating transfers in	0	0	40,000	40,000
Operating transfers out	(40,000)	0	0	(40,000)
Loan proceeds	0	0	170,000	170,000
Total other financing sources (uses)	<u>(40,000)</u>	<u>0</u>	<u>210,000</u>	<u>170,000</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(18,773)</u>	<u>1,385</u>	<u>161,580</u>	<u>144,192</u>
Fund balances - beginning of year	<u>70,920</u>	<u>97,004</u>	<u>96,581</u>	<u>264,505</u>
Fund balances - end of year	<u>\$ 52,147</u>	<u>\$ 98,389</u>	<u>\$ 258,161</u>	<u>\$ 408,697</u>

The accompanying notes to financial statements are an integral part of this statement.

WEST BRANCH PUBLIC LIBRARY
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Total net change in fund balances - governmental funds	\$	144,192
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (23,077)	
Capital assets reported as capital outlays in the governmental funds	96,782	
Net difference		73,705

Bond proceeds used to construct capital assets provide current financial resources to governmental funds, but the proceeds are capitalized as the cost of capital assets in the statement of net assets.		(170,000)
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Some revenue reported in the statement of activities does not meet availability requirements for current financial resources, and, therefore, is not reported as revenue in the governmental funds:

Property taxes		4,571
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net change in accrued compensated absences:		
Accrued compensated absences June 30, 2003	315	
Accrued compensated absences June 30, 2004	(300)	
Net change		15

Change in net assets of governmental activities	\$	52,483
---	----	--------

The accompanying notes to financial statements are an integral part of this statement.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the West Branch District Library conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of Library's Operations

The West Branch District Library was established to maintain and operate a public library for the District. The Library operates under the supervision and control of a five member Board of Trustees. A trustee is appointed from each of the following units of government in the District that have levied an operating millage for the Library: the City of West Branch, Edwards Township, Horton Township, Ogemaw Township and West Branch Township. The City of West Branch performs all of the bookkeeping and administrative functions for the Library. All activities over which the Library exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Basis of Presentation

The Library's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. For the most part, the effect of interfund activity has been removed from the statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

Fund Financial Statements

During the year, the Library segregates transactions related to certain Library functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Library at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which all governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Library's major governmental funds:

Special Revenue Funds - These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Library Operating Fund –This fund is the general operating fund of the Library. It is used to account for all financial resources, except those required to be accounted for in another fund.

Library Contingency Fund – This fund is used to accumulate funds set aside by the Library Board to fund future contingency items.

Library Capital Improvement Fund – This fund is used to account for bond proceeds used for the construction of the Library's building addition and improvements.

D. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Library are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Library must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: penal fines, charges for services, fines and forfeitures, grants, interest, and rent.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgets and Budgetary Accounting

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the Statements of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Funds.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

2. A public hearing is conducted to obtain comments.
3. Prior to July 1, the budget is legally enacted through Board approval.
4. Budgetary amounts reported herein are as originally adopted, or as amended by the Library Board.

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the special revenue funds. All annual appropriations lapse at fiscal year end.

The Library does not maintain a formalized encumbrance accounting system.

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Library are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

H. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years
Collections – Library Books and Audio-Visual Materials	5 years

J. Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Library has identified as probable of receiving payment in the future. Employees are compensated for unused sick days in excess of sixty (60) days, at the rate of \$15 per day on December 1 each year. The Library records a liability for sick leave earned depending on the Library policy.

The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave as paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, and claims and judgments, that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Library's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Governmental Fund Balance Reserves

The Library reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

O. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

P. Reclassifications

Certain amounts for the year ended June 30, 2004 have been reclassified to conform with the current year presentation.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

A. Change in Accounting Principles

For the year ended June 30, 2004, the Library has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the Library's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the Library's programs between governmental activities and business type activities. The Library does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Library's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	<u>\$ 457,010</u>

The breakdown between deposits is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	<u>\$ 457,010</u>

Deposits:

Deposits are carried at cost. Deposits of the Library are held at Independent Bank in the name of the City of West Branch. At June 30, 2004 the carrying amounts of the Library's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 0	\$ 0
Uninsured	<u>457,010</u>	<u>457,083</u>
Total	<u>\$ 457,010</u>	<u>\$ 457,083</u>

Investments:

The Library follows the City of West Branch's investment policy that was adopted in accordance with Act 196, PA 1997, which authorizes the City to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involves no more than 50 percent of any one fund
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law does not allow public funds to be deposited in financial institutions that do not maintain an office in Michigan. The Library's deposits are in accordance with the statutory authority.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
Library Operating Fund	\$ 0	\$ 5,020
Library Capital Improvement Fund	<u>5,020</u>	<u>0</u>
Total Major Governmental Funds	<u>\$ 5,020</u>	<u>\$ 5,020</u>

NOTE 5 - PROPERTY TAXES

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on July 31 with the final collection date of February 28 before they are added to the County tax rolls. The Library receives payments for these taxes from the participating units of government after final settlement of their tax rolls with the County. The delinquent personal property taxes are not purchased by the County.

For the current year, the taxable value for properties located within the District was \$197,528,900. The tax rate was .2910 mills for the Library.

NOTE 6 - DEFERRED REVENUE

Governmental funds report deferred revenues in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Taxes Receivable	<u>\$ 4,571</u>	<u>\$ 0</u>	<u>\$ 4,571</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Construction in Progress	<u>\$ 0</u>	<u>\$ 74,573</u>	<u>\$ 0</u>	<u>\$ 74,573</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	10,000	0	0	10,000
Collections – Library Books	560,000	20,384	20,384	560,000
Collections – Audio-Visual	<u>100,000</u>	<u>1,825</u>	<u>1,825</u>	<u>100,000</u>
Subtotal	<u>670,000</u>	<u>22,209</u>	<u>22,209</u>	<u>670,000</u>

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 7 - CAPITAL ASSETS (CONTINUED)

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	\$ 10,000	\$ 0	\$ 0	\$ 10,000
Collections – Library Books	516,718	21,287	20,384	517,621
Collections – Audio-Visual	<u>96,449</u>	<u>1,790</u>	<u>1,825</u>	<u>96,414</u>
Subtotal	<u>623,167</u>	<u>23,077</u>	<u>22,209</u>	<u>624,035</u>
Net Capital Assets Being Depreciated	<u>46,833</u>	<u>(868)</u>	<u>0</u>	<u>45,965</u>
Governmental Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 46,833</u>	<u>\$ 73,705</u>	<u>\$ 0</u>	<u>\$ 120,538</u>

Depreciation expense was charged to the recreation and cultural program.

NOTE 8 - LONG-TERM DEBT

At June 30, 2004, long-term debt consists of the following individual issues:

	<u>Governmental</u>
A. <u>Bonds Payable</u>	
2004 Library Limited Tax General Obligation Facility Bonds in the amount of \$170,000 due in annual installments of \$15,000 to \$19,000 through 2014; interest at 2.25% - 4.50%.	<u>\$ 170,000</u>

B. Compensated Absences

The Library has an accrued liability for accumulated sick leave benefits of its employees. As of June 30, 2004, the accumulated vested sick leave benefits of the employees of the Library was as follows:

	<u>Current Liability 6/30/04</u>	<u>Long-Term Liability 6/30/04</u>	<u>Total Balance 6/30/04</u>
<u>Accrued Employee Benefits Payable</u>			
Governmental Activities	<u>\$ 300</u>	<u>\$ 0</u>	<u>\$ 300</u>

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 8 - LONG-TERM DEBT (CONTINUED)C. Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1, 2003</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds payable	\$ 0	\$ 170,000	\$ 0	\$ 170,000	\$ 15,000
Accrued employee benefits payable	<u>315</u>	<u>300</u>	<u>315</u>	<u>300</u>	<u>300</u>
Total	<u>\$ 315</u>	<u>\$ 170,300</u>	<u>\$ 315</u>	<u>\$ 170,300</u>	<u>\$ 15,300</u>

The annual aggregate maturities for all debt outstanding (excluding compensated absences), as of June 30, 2004 are as follows:

	<u>Governmental Activities</u>		
<u>Bonds Payable</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 15,000	\$ 5,360	\$ 20,360
2006	16,000	5,492	21,492
2007	16,000	5,093	21,093
2008	16,000	4,652	20,652
2009	16,000	4,173	20,173
2010 – 2014	<u>91,000</u>	<u>11,610</u>	<u>102,610</u>
	<u>\$ 170,000</u>	<u>\$ 36,380</u>	<u>\$ 206,380</u>

NOTE 9 - SERVICE CONTRACTS

The Library maintains service contracts with two Townships in the District in lieu of a dedicated millage, which allows the Library to forego charging the Townships' residents a user fee. Annual payments under the service contracts are determined by taking the total amount of funds a dedicated millage of .300 mills would create if applied and collected from the City of West Branch, Edwards Township, Horton Township, Ogemaw Township and West Branch Township, multiplied by .90 with that sum multiplied by the number of Library cardholders residing in the applicable Township under the service contract. The calculation is based upon the number of cardholders and taxable value as of December 31st each year, and due and payable by the first day of the following March.

The total amount received under service contracts for the year ended June 30, 2004 is as follows:

Churchill Township	\$ 8,161
Foster Township	<u>4,329</u>
	<u>\$ 12,490</u>

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 10 - ADMINISTRATIVE FEES

The City of West Branch provides bookkeeping and administrative services to the West Branch District Library. Administrative fees paid to the City of West Branch for the year ended June 30, 2004 were \$8,858.

NOTE 11 - OPERATING TRANSFERS

During the year ended June 30, 2004, the following transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Major Governmental Funds:		
Library Operating Fund	\$ 0	\$ 40,000
Library Capital Improvement Fund	<u>40,000</u>	<u>0</u>
Total Major Governmental Funds	<u>\$ 40,000</u>	<u>\$ 40,000</u>

NOTE 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Library for these budgetary funds were adopted at the functional level.

During the year ended June 30, 2004, the Library incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Recreation and Cultural	\$ 175,700	\$ 184,722	\$ 9,022

NOTE 13 - RETIREMENT SYSTEM – MERS OPERATED

The Library is part of the City of West Branch's defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employee Retirement System (MERS) of Michigan. Information on the plan, as a whole, is disclosed in the Notes to Financial Statements of the City's Audit Report. The disclosure includes information on the plan description, funding policy and annual pension cost. Complete financial statements can be obtained from the City of West Branch Treasurer's office.

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 14 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 15 - UNEMPLOYMENT COMPENSATION

The Library is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Library must reimburse the Employment Agency for all benefits charged against the Library. No liabilities were due as of June 30, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL - LIBRARY OPERATING FUND -
 SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property taxes	\$ 59,890	\$ 59,890	\$ 62,426	\$ 2,536
State shared revenue	8,000	8,000	9,934	1,934
Penal fines	99,000	99,000	117,657	18,657
Service contracts	14,000	14,000	12,490	(1,510)
Copies	1,400	1,400	1,407	7
Interest income	1,500	1,500	1,163	(337)
Contributions	3,000	3,000	2,171	(829)
Miscellaneous	19,610	19,610	20,910	1,300
Total revenue	<u>206,400</u>	<u>206,400</u>	<u>228,158</u>	<u>21,758</u>
<u>Expenditures</u>				
Wages	87,000	87,000	86,698	302
FICA	6,300	6,300	7,097	(797)
Hospitalization	17,400	17,400	15,731	1,669
Retirement	6,000	6,000	8,278	(2,278)
Administration	8,000	8,000	8,858	(858)
Building maintenance	0	0	3,654	(3,654)
Cleaning	3,000	3,000	2,530	470
Conferences and travel	2,000	2,000	1,935	65
Contractual services	0	0	632	(632)
Data processing	3,300	3,300	0	3,300
Electricity	3,000	3,000	3,157	(157)
Equipment maintenance	2,000	2,000	4,472	(2,472)
Equipment rental	300	300	476	(176)
Gas and heat	1,600	1,600	1,728	(128)
Insurance	2,500	2,500	2,893	(393)
Legal and accounting	0	0	1,700	(1,700)
Membership and dues	12,000	12,000	14,496	(2,496)
Miscellaneous	5,500	5,500	4,020	1,480
Operating supplies	4,700	4,700	5,436	(736)
Periodicals	3,300	3,300	2,986	314
Printing and publishing	1,500	1,500	1,302	198
Programming	3,300	3,300	3,605	(305)
Telephone	2,300	2,300	2,014	286
Water and sewer	700	700	316	384
Workshops and presentations	0	0	708	(708)
Capital outlay:				
Books	20,000	20,000	20,384	(384)
Records and tapes	1,500	1,500	1,825	(325)
Equipment	5,000	5,000	0	5,000
Improvements	6,300	6,300	0	6,300
Total expenditures	<u>208,500</u>	<u>208,500</u>	<u>206,931</u>	<u>1,569</u>
Excess of revenue over (under) expenditures	(2,100)	(2,100)	21,227	23,327
Other Financing Uses:				
Operating transfers out	<u>0</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>0</u>
Excess of revenue over (under) expenditures and other uses	(2,100)	(42,100)	(18,773)	23,327
Fund balances - beginning of year	<u>70,920</u>	<u>70,920</u>	<u>70,920</u>	<u>0</u>
Fund balances - end of year	<u>\$ 68,820</u>	<u>\$ 28,820</u>	<u>\$ 52,147</u>	<u>\$ 23,327</u>

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL - LIBRARY CONTINGENCY FUND -
 SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Interest income	\$ 0	\$ 0	\$ 1,385	\$ 1,385
Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of revenue over expenditures	0	0	1,385	1,385
Fund balances - beginning of year	<u>97,004</u>	<u>97,004</u>	<u>97,004</u>	<u>0</u>
Fund balances - end of year	<u>\$ 97,004</u>	<u>\$ 97,004</u>	<u>\$ 98,389</u>	<u>\$ 1,385</u>

WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property taxes	\$ 59,890	\$ 59,890	\$ 62,426	\$ 2,536
State shared revenue	8,000	8,000	9,934	1,934
Penal fines	99,000	99,000	117,657	18,657
Service contracts	14,000	14,000	12,490	(1,510)
Copies	1,400	1,400	1,407	7
Interest income	1,500	1,500	2,548	1,048
Contributions	3,000	3,000	2,171	(829)
Miscellaneous	19,610	19,610	20,910	1,300
Total revenue	<u>206,400</u>	<u>206,400</u>	<u>229,543</u>	<u>23,143</u>
<u>Expenditures</u>				
Current:				
Recreation and cultural	175,700	175,700	184,722	(9,022)
Capital outlay	<u>32,800</u>	<u>32,800</u>	<u>22,209</u>	<u>10,591</u>
Total expenditures	<u>208,500</u>	<u>208,500</u>	<u>206,931</u>	<u>1,569</u>
Excess of revenue over (under) expenditures	(2,100)	(2,100)	22,612	24,712
Other Financing Uses:				
Operating transfers out	<u>0</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>0</u>
Excess of revenue over (under) expenditures and other uses	(2,100)	(42,100)	(17,388)	24,712
Fund balances - beginning of year	<u>167,924</u>	<u>167,924</u>	<u>167,924</u>	<u>0</u>
Fund balances - end of year	<u>\$ 165,824</u>	<u>\$ 125,824</u>	<u>\$ 150,536</u>	<u>\$ 24,712</u>

OTHER INFORMATION

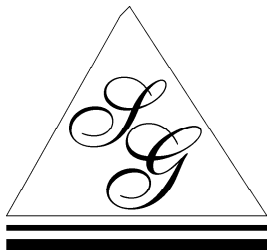
WEST BRANCH DISTRICT LIBRARY
Ogemaw County, Michigan

SCHEDULE OF INDEBTEDNESS
June 30, 2004

LIMITED TAX GENERAL OBLIGATION BONDS

2004 Library Facility Bonds

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal</u>	<u>Annual Interest Requirements</u>	<u>Total</u>
4-30-04	\$ 170,000	2.25% - 4.50%	5-1-05	\$ 15,000	\$ 5,360	\$ 20,360
			5-1-06	16,000	5,492	21,492
			5-1-07	16,000	5,093	21,093
			5-1-08	16,000	4,652	20,652
			5-1-09	16,000	4,173	20,173
			5-1-10	17,000	3,652	20,652
			5-1-11	18,000	3,058	21,058
			5-1-12	18,000	2,382	20,382
			5-1-13	19,000	1,663	20,663
			5-1-14	19,000	855	19,855
				<u>\$ 170,000</u>	<u>\$ 36,380</u>	<u>\$ 206,380</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 3, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Library Board
West Branch District Library
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities and each major fund of the West Branch District Library, Ogemaw County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

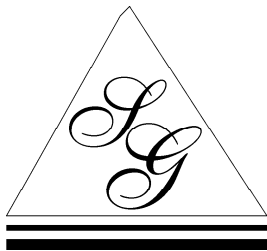
As part of obtaining reasonable assurance about whether the West Branch District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the West Branch District Library in a separate letter dated September 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the West Branch District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Library Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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September 3, 2004

Members of the Library Board
West Branch District Library
Ogemaw County, Michigan

Dear Board Members:

We have audited the financial statements of the West Branch District Library for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 20, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the West Branch District Library's internal control. Such considerations were solely for the purpose of determining our auditing procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the West Branch District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the West Branch District Library are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the West Branch District Library changed accounting policies as a result of adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34, 33 and 38, in the year ended June 30, 2004. We noted no transactions entered into by the West Branch District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the West Branch District Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the West Branch District Library, either individually or in the aggregate, indicate matters that could have a significant effect on the West Branch District Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the West Branch District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

Budget Control

We noted that the Library's Special Revenue Funds included expenditures in one function that exceeded appropriated amounts. We recommend that the Library Board amend the budgets for all funds as needed when expenditures exceed appropriations.

Debt Service Fund

A separate debt service fund must be established to accumulate funds for the payment of the 2004 Building Bonds. This fund is required to have a separate checking account that must be used to make the principal and interest payments on the debt.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Library.

This information is intended solely for the use of management, the Library Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.